

ESO 1088
(revised for use
with ESO 1087)

1984 CUSTOM RATE AND OPERATING COST
ESTIMATES FOR NEW MACHINERY IN OHIO*

Revised and Adopted for Ohio
by
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The suggested custom rates provided in the following tables have been calculated by formula from the most recent farm machinery, energy, and labor prices available. In times of stable price levels, surveys of market custom rates are a reasonable method for determining charges; however, in today's world of drastically changing costs, any survey is out of date before the summary is complete and made available. We feel that our method of estimating custom rates can provide reasonable estimates as a base for determining a negotiated rate between a purchaser and a supplier of custom services.

You can expect to pay slightly higher custom rates again this year. Although fuel and interest costs have decreased from last year's, there were some price increases in some types of machinery. However, some types of machinery decreased in price. New equipment prices were obtained from several regional sales offices of farm equipment manufacturers, and these prices were averaged for each tractor or implement.

The items listed in the tables include a description of the implement, the tractor or combine base used with the implement, and the cash operating, total, and suggested custom rate costs on a per acre and per hour basis. Also included on a per acre or per hour basis are the estimated costs of overhead, hours of labor, repairs, maintenance, fuel, and lubrication.

Machine and Tractor Identification

The name of the implement and size of the tractor or combine base is provided in columns one and two. A self-propelled implement such as a swather will have three dashes (---) indicating that no tractor is used.

Combines are presented slightly differently. The head of the combine is identified in the first column, and the size of the base unit is given in the second column. For example, the "COMBINE SM GRAIN MED" describes a medium sized soybean head and the four-row corn heads.

Cash Operating Costs

These costs, provided on a per hour and per acre basis, are estimates of the costs of fuel (diesel), oil, and repairs for the tractor and the implement as used for the particular function described. Labor cost estimates are not included in this figure.

Total Costs

Total costs provide estimates of all costs associated with carrying out the particular function. These costs include cash operating costs, labor, and overhead costs for the tractor and implement. Labor is valued at \$4.75 per hour for unskilled labor and \$7.50 per hour for skilled labor.

Suggested Custom Rates

The suggested custom rate values include an additional 20 percent over the total cost figures. This margin provides a profit to the custom operator and a return for the risk and travel expenses involved. Many times a custom operator will cover more acres annually than a commercial farmer. Therefore, for popular custom services the overhead costs may be spread over more acres and hours, thereby reducing the total costs.

Overhead Cost Per Acre

The overhead cost per acre is the total annual overhead cost of the tractor and implement on a per acre basis typical of a commercial farmer.

Labor Hours Per Acre

This represents an estimate of the required hours of labor on one acre with a specific machine. It includes a measure for travel and set up time as well as direct use machine field time.

Repair and Maintenance Per Acre

This is an estimate on a per acre basis for the average cost of repairs and maintenance of the tractor and implement as used on one acre.

Fuel and Lube Per Acre

This is an estimate of fuel (diesel) and oil costs per acre where diesel fuel is estimated to cost \$1.00 per gallon and oil cost is calculated to be ten percent of the fuel costs.

Custom rates will vary from area to area and are always a function of the demand for and the supply of those custom services. The charges for the services may be determined in different ways for different situations. For example, if two farmers are trading services they may price their services on a cash cost basis. This assumes that the value of their labor and machinery overhead would be approximately the same. Cash cost and labor expenses could only be expected to be recouped if they were being paid by an insurance settlement to replant a crop. The assumption here is that the ownership costs already are considered as a normal production cost.

If farmers trading machinery use consider their inputs, labor, and machinery overhead unequal, they should base their rates on a total cost or a suggested custom rate basis.

The following tables are the results of the projections for 1984.